



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

July 20, 2005

California State Senate
Attention: Gregory Schmidt, Secretary
State Capitol Room 3044
10th & L Streets
Sacramento, CA 95814

Dear Mr. Schmidt:

Pursuant to discussions with representatives from Assembly Speaker Nunez's office, we respectfully submit the attached 2005/06 Expenditure Plan for the Fair and Exposition Fund and Satellite Wagering Account. Although Business and Professions Code 19621(c) calls for the department to submit this plan to the Joint Committee on Fairs Allocation and Classification, there is no seated Joint Committee this year. Therefore, in accordance with our agreement with Speaker Nunez' staff, we are providing this report to ensure Legislative oversight.

As always, the formulation of this plan received significant input from the California fair industry and was reviewed and approved by the California Fair Alliance Board within the Western Fairs Association. The plan is the product of the unique and very long-term partnership between agricultural fairs and our State's horse racing industry, dating to the 1860s. Quoting from the January 1993 report *California Fairs Facing Change – Opportunities for Success*:

“Fairs have been an integral part of the horse racing industry in California since the 1860s, when organized racing was first conducted at district fairs. Following the Great Depression, fairs' need for state revenues made parimutuel betting palatable, politically and socially, and set the stage for creating a tie between fairs and racing activities. The California Horse Racing Act of 1933 – ratified two to one by a referendum of the electorate – legalized parimutuel betting on horse racing and established a special account in state government funded by a portion of betting receipts to support the fairs.”¹

The Department of Food & Agriculture (CDFA) serves as the steward of these funds, ensuring their appropriate use and monitoring the fairs' adherence to sound fiscal policies.

¹ *California Fairs Facing Change – Opportunities for Success*. Committee to Study the Fair Industry in California. January 1993.



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Four important features exist in relation to this partnership:

First, as a result of the funding from racing, *fairs do not place any burden on the State's General Fund*. In fact, even CDFA's oversight and fund management roles are funded entirely from racing income.

Second, the State experiences a *huge economic return* from fair activity statewide. With the approximate \$26 million generated by racing as a foundation, fair budgets total more than \$350 million, all supported by local user fees including admission charges, rental fees, sponsorship income, etc. This translates into more than \$136 million in direct State and local income from sales, income and other tax sources; the creation of more than 28,000 jobs; and total economic impact to the State of more than \$2.5 billion.² It is a truly remarkable accomplishment, one that also provides significant educational and social benefits as well. Fairs are an important part of California's economy and a very important investment in our communities.

Third, California's fairs provide a significant social impact by *connecting communities with their nonprofit and charity-based community organizations*, providing a venue to raise awareness of their programs and services – and to raise funds to support causes for the benefit of local citizens. For many local nonprofit groups, a significant percentage of their annual budgets are derived from fundraising activities at fairs.

Fourth, fairs in California play a major role each year in natural disasters by *servicing as staging sites and rescue locations* for humans and animals during forest fires, floods, earthquakes, and other emergencies. Fairgrounds have become such an instrumental resource for these purposes, and in the State's Homeland Security preparedness, that the Division of Fairs and Expositions now holds a permanent seat at the Office of Emergency Services State Operations Center.

If desired, my staff and I are available to discuss this plan with you. Additional information may be received by contacting Michael Treacy, Director of the Division of Fairs and Expositions, at (916) 263-2952.

Sincerely,



A.G. Kawamura
Secretary

cc: Senator Jeffrey Denham, Chair, Senate Agriculture Committee
Senator Dean Florez, Chair, Senate Governmental Organization Committee

Enclosure

² *Fairs – Exploring a California Gold Mine*. California Department of Food and Agriculture. 2003.

Division of Fairs & Expositions
Fair & Exposition Fund (191) and Satellite Wagering Account (192)
2005/2006 Revenue and Expenditure Plan

	(a) Budgeted 2004/2005		(b) Proposed 2005/2006		(b - a) Variance
Beginning Balance					
Fairs and Expositions (F&E)	\$537,485		\$228,996		(\$308,489)
Revenues					
License Fees					
On Track - Live Racing (B&P 19620.1(a))	13,265,000		12,765,000		(500,000)
1.0% Live Racing Fair Handle (B&P 19614(a))	1,400,000		1,350,000		(50,000)
Off-Track - Satellite Wagering (B&P 19606.1 & 19620.1(a))	24,703,396		25,470,000		766,604
SMIF Interest Revenue	60,000		60,000		0
Total Revenues	<u>39,428,396</u>		<u>39,645,000</u>		<u>216,604</u>
Fund Transfers & Other Receipts					
Transfers to Other Funds					
Retired DAA Employee Benefits	(246,000)		(246,000)		0
Total Available Resources	<u>\$39,719,881</u>		<u>\$39,627,996</u>		<u>(\$91,885)</u>
Expenditures					
Administrative Oversight					
California Horse Racing Board Support (CHRB)	8,163,000		8,477,000		314,000
CDFA Support - Fairs & Expositions (F&E) ¹	2,693,979		2,818,671		124,692
Pro Rata Assessment	516,021		413,329		(102,692)
CDFA Support - Audit Program ¹	864,000		1,020,000		156,000
Total Administrative Oversight	<u>12,237,000</u>	30.98%	<u>12,729,000</u>	32.58%	<u>492,000</u>
Local Assistance					
Operational Support					
Bond Debt Service	2,288,440		2,582,628		294,188
California Construction Authority (CCA)	1,846,769		1,754,431		(92,338)
Construction & Infrastructure Program	0		0		0
Property Insurance	450,000		450,000		0
	<u>4,585,209</u>	11.61%	<u>4,787,059</u>	12.25%	<u>201,850</u>
General Fair Programs & Funding					
Local (Base) Allocations	9,801,000		9,766,000		(35,000)
Administrative & Fiscal Assistance	25,000		0		(25,000)
Cal-Expo Pro Rata Reimbursement	265,000		265,000		0
Contingencies and Special Projects	250,000		750,000		500,000
Fair Relations and Publications	25,000		25,000		0
Flex Capital (Optional) ²	0		3,100,000		3,100,000
Millennium FLEX (Optional) ²	4,745,000		0		(4,745,000)
Rural Healthcare Equity Program	30,000		30,000		0
Unemployment Insurance (Optional) ²	950,000		950,000		0
18th DAA (Bishop) - Property Tax Reimbursement	35,000		0		(35,000)
	<u>16,126,000</u>	40.83%	<u>14,886,000</u>	38.10%	<u>(1,240,000)</u>
Health & Safety					
Accessibility Upgrades Fund ²	0		1,084,000		1,084,000
Emergency Fund (Optional) ²	200,000		0		(200,000)
Health Department Program	165,000		160,000		(5,000)
Livestock Quality Assurance	125,000		50,000		(75,000)
Urgent Needs Fund (Optional) ²	0		100,000		100,000
	<u>490,000</u>	1.24%	<u>1,394,000</u>	3.57%	<u>904,000</u>
Infrastructure					
Asset Management (Optional) ²	0		100,000		100,000
Real Estate Services (Optional) ²	150,000		0		(150,000)
Revenue Generating (Optional) ²	1,000,000		600,000		(400,000)
	<u>1,150,000</u>	2.91%	<u>700,000</u>	1.79%	<u>(450,000)</u>
Training & Education					
Agricultural Education	350,000		250,000		(100,000)
Fair Management Training Program	100,000		0		(100,000)
Professional Development & Compliance	285,000		481,000		196,000
	<u>735,000</u>	1.86%	<u>731,000</u>	1.87%	<u>(4,000)</u>
Racing & Satellite Wagering Support					
Race Track Preparation	600,000		600,000		0
Supplemental Purses	1,400,000		1,400,000		0
Wagering Facility Improvements	2,250,000		1,900,000		(350,000)
	<u>4,250,000</u>	10.76%	<u>3,900,000</u>	9.98%	<u>(350,000)</u>
Abatements & Accrual Adjustments ³	(73,700)	-0.19%	(53,581)	-0.14%	20,119
Total Local Assistance	<u>27,262,509</u>	69.02%	<u>26,344,478</u>	67.42%	<u>(918,031)</u>
Total Expenditures	<u>\$39,499,509</u>	100%	<u>\$39,073,478</u>	100%	<u>(\$426,031)</u> ⁴
Ending Balance	<u>\$220,372</u>		<u>\$554,518</u>		<u>\$334,146</u>

¹ Variance due to budget adjustments mandated by Department of Finance Budget Letters as reflected in the Governor's Budget.

² Programs identified as "(Optional)" are those in which fairs have the option to request funding through submission of a program application.

³ Reflects expense reimbursements received, including fair loan payments, and prior year accrual adjustments.

⁴ Represents Total Expenditures variance only.

**Division of Fairs & Expositions
Fair & Exposition Fund (191)
2005/2006 Revenue and Expenditure Plan**

	Actual 2003/2004	Budgeted 2004/2005	Projected 2004/2005	Proposed 2005/2006
Beginning Balance				
Fairs and Expositions (F&E)	\$670,000	\$343,688	\$2,113,000	\$100,469
Prior Year Adjustments	123,000	0	0	0
	<u>793,000</u>	<u>343,688</u>	<u>2,113,000</u>	<u>100,469</u>
Revenues				
License Fees				
On Track - Live Racing (B&P 19620.1(a))	12,949,269	13,265,000	10,291,330	12,765,000
1.0% Live Racing Fair Handle (B&P 19614(a))	1,391,308	1,400,000	1,370,180	1,350,000
Off-Track - Satellite Wagering (B&P 19620.1(a))	12,797,000	12,303,396	13,014,000	13,070,000
SMIF Interest Revenue	<u>29,428</u>	<u>30,000</u>	<u>45,833</u>	<u>30,000</u>
Total Revenues	<u>27,167,005</u>	<u>26,998,396</u>	<u>24,721,343</u>	<u>27,215,000</u>
Fund Transfers & Other Receipts				
Transfers in				
Project Cost Savings	0	0	1,044,000	0
Transfers to Other Funds				
Retired DAA Employee Benefits	(246,000)	(246,000)	(246,000)	(246,000)
Total Available Resources	<u>\$27,714,005</u>	<u>\$27,096,084</u>	<u>\$27,632,343</u>	<u>\$27,069,469</u>
Expenditures				
Administrative Oversight				
California Horse Racing Board Support (CHRB)	8,062,000	8,163,000	8,398,000	8,477,000
CDFA Support - Fairs and Expositions (F&E) ¹	1,843,823	2,326,396	2,418,396	2,405,747
Pro Rata Assessment	625,152	297,604	297,604	217,253
CDFA Support - Audit Program ¹	864,025	864,000	950,000	1,020,000
Total Administrative Oversight	<u>11,395,000</u>	<u>11,651,000</u>	<u>12,064,000</u>	<u>12,120,000</u>
Local Assistance				
General Fair Programs & Funding				
Local (Base) Allocations	9,601,000	9,801,000	9,407,000	9,766,000
Administrative & Fiscal Assistance	2,525	25,000	0	0
Cal-Expo Pro Rata Reimbursement	265,000	265,000	265,000	265,000
Contingencies and Special Projects	158,068	250,000	197,070	750,000
Fair Relations and Publications	270	25,000	0	25,000
Flex Capital (Optional) ²	0	0	0	2,000,000
Millennium FLEX (Optional) ²	2,936,805	2,945,000	2,886,000	0
Rural Healthcare Equity Program	0	30,000	63,502	30,000
Unemployment Insurance (Optional) ²	950,000	950,000	950,000	950,000
18th DAA (Bishop) - Property Tax Reimbursement	30,000	35,000	34,749	0
	<u>13,943,668</u>	<u>14,326,000</u>	<u>13,803,321</u>	<u>13,786,000</u>
Health & Safety				
Health Department Program	140,000	165,000	160,000	0
Livestock Quality Assurance	70,910	125,000	75,000	0
	<u>210,910</u>	<u>290,000</u>	<u>235,000</u>	<u>0</u>
Training & Education				
Agricultural Education	70,612	350,000	0	250,000
Fair Management Training Program	0	100,000	0	0
Professional Development & Compliance	198,730	285,000	233,570	481,000
	<u>269,342</u>	<u>735,000</u>	<u>233,570</u>	<u>731,000</u>
Abatements & Accrual Adjustments ³	(217,915)	(73,700)	1,195,983	(53,581)
Total Local Assistance	<u>14,206,005</u>	<u>15,277,300</u>	<u>15,467,874</u>	<u>14,463,419</u>
Total Expenditures	<u>\$25,601,005</u>	<u>\$26,928,300</u>	<u>\$27,531,874</u>	<u>\$26,583,419</u>
Ending Balance ⁴	<u>\$2,113,000</u>	<u>\$167,784</u>	<u>\$100,469</u>	<u>\$486,050</u>

¹ 2005-06 increases due to adjustments mandated by Department of Finance Budget Letters as reflected in the Governor's Budget.

² Programs identified as "(Optional)" are those in which fairs have the option to request funding through submission of a program application.

³ Reflects expense reimbursements received, including fair loan payments, and prior year accrual adjustments.

⁴ Actual 2003/2004 ending balance as reflected in the Governor's Budget. This ending balance includes funding committed to 2003/2004 fair programs, but not yet expended as of fiscal year-end.

**Division of Fairs & Expositions
Satellite Wagering Account (192)
2005/2006 Revenue and Expenditure Plan**

	<u>Actual 2003/2004</u>	<u>Budgeted 2004/2005</u>	<u>Projected 2004/2005</u>	<u>Proposed 2005/2006</u>
Beginning Balance				
Fairs and Expositions (F&E)	\$31,000	\$193,797	\$541,000	\$128,527
Revenues				
License Fees				
Off-Track - Satellite Wagering (B&P 19606.1)	12,575,913	12,400,000	12,564,608	12,400,000
SMIF Interest Revenue	43,885	30,000	64,043	30,000
Total Revenues	<u>12,619,798</u>	<u>12,430,000</u>	<u>12,628,651</u>	<u>12,430,000</u>
Total Available Resources	<u>\$12,650,798</u>	<u>\$12,623,797</u>	<u>\$13,169,651</u>	<u>\$12,558,527</u>
Expenditures				
Administrative Oversight				
CDFA Support - Fairs & Expositions (F&E) ¹	366,574	367,583	382,818	412,924
Pro Rata Assessment	410,428	218,417	218,417	196,076
Total Administrative Oversight	<u>777,002</u>	<u>586,000</u>	<u>601,235</u>	<u>609,000</u>
Local Assistance				
Operational Support				
Bond Debt Service	2,139,569	2,288,440	2,603,971	2,582,628
California Construction Authority (CCA)	0	1,846,769	1,846,769	1,754,431
Construction & Infrastructure Program	1,755,111	0	0	0
Property Insurance	450,000	450,000	450,000	450,000
	<u>4,344,680</u>	<u>4,585,209</u>	<u>4,900,740</u>	<u>4,787,059</u>
General Fair Programs & Funding				
Flex Capital (Optional) ²	0	0	0	1,100,000
Millennium FLEX (Optional) ²	1,594,695	1,800,000	1,774,000	0
	<u>1,594,695</u>	<u>1,800,000</u>	<u>1,774,000</u>	<u>1,100,000</u>
Health & Safety				
Accessibility Upgrades Fund ²	0	0	0	1,084,000
Emergency Fund (Optional) ²	100,000	200,000	200,000	0
Health Department Program	0	0	0	160,000
Livestock Quality Assurance	0	0	0	50,000
Urgent Needs Fund (Optional) ²	0	0	0	100,000
	<u>100,000</u>	<u>200,000</u>	<u>200,000</u>	<u>1,394,000</u>
Infrastructure				
Asset Management (Optional) ²	0	0	0	100,000
Infrastructure Study & Database	240,000	0	0	0
Real Estate Services (Optional) ²	0	150,000	150,000	0
Revenue Generating (Optional) ²	1,000,000	1,000,000	1,000,000	600,000
	<u>1,240,000</u>	<u>1,150,000</u>	<u>1,150,000</u>	<u>700,000</u>
Racing & Satellite Wagering Support				
Race Track Preparation	600,000	600,000	600,000	600,000
Supplemental Purses	1,376,243	1,400,000	1,404,557	1,400,000
Wagering Facility Improvements	2,250,000	2,250,000	2,250,000	1,900,000
	<u>4,226,243</u>	<u>4,250,000</u>	<u>4,254,557</u>	<u>3,900,000</u>
Abatements & Accrual Adjustments ³	(172,822)	0	160,592	0
Total Local Assistance	<u>11,332,796</u>	<u>11,985,209</u>	<u>12,439,889</u>	<u>11,881,059</u>
Total Expenditures	<u>\$12,109,798</u>	<u>\$12,571,209</u>	<u>\$13,041,124</u>	<u>\$12,490,059</u>
Ending Balance ⁴	<u>\$541,000</u>	<u>\$52,588</u>	<u>\$128,527</u>	<u>\$68,468</u>

¹ 2005-06 increases due to adjustments mandated by Department of Finance Budget Letters as reflected in the Governor's Budget.

² Programs identified as "(Optional)" are those in which fairs have the option to request funding through submission of a program application.

³ Reflects expense reimbursements received, including fair loan payments received, and prior year accrual adjustments.

⁴ Actual 2003/2004 ending balance as reflected in the Governor's Budget. This ending balance includes funding committed to 2003/2004 fair programs, but not yet expended as of fiscal year-end.

Program Descriptions

The following table briefly describes programs recommended for funding in the 2005/2006 Network of California Fairs Expenditure Plan:

Administrative Oversight Total: \$12,729,000

California Horse Racing Board Support (CHRB)	Budget Act appropriation for operational support of the California Horse Racing Board (B&P Code section 19620.1(b)).
CDFA Support – Fairs and Expositions (F&E)	Budget Act appropriation for operational support of F&E (B&P Code sections 19620.1(b)). Operational support budget includes the assessment ProRata (share of State's overhead costs) imposed by the Department of Finance.
CDFA Support – Audit Program	Budget Act appropriation for annual fiscal and biennial compliance audits of all DAA's and selected county fairs. Assures individuals entrusted with public resources are accountable to the public and other levels and branches of government.

Local Assistance Total: \$26,344,478

Operational Support	\$4,787,059
Bond Debt Service	Pays debt service on revenue bonds issued for the construction and maintenance of fair facilities (B&P Code section 19606.1 (a)(1))
California Construction Authority (CCA)	Funds the operational support of CCA, a Joint Powers Authority, which provides design, engineering, construction, and master planning services to fairs.
Property Insurance	Provides funding for the purchase of property insurance to protect fair facilities.

General Fair Programs & Funding \$14,886,000

Local (Base) Allocation	Provides funds for discretionary use by local fair organizations with classification criteria that assign greater support to smaller fairs.
Cal Expo Pro Rata Reimbursement	Reimburses Cal Expo pro-rata costs (overhead), not to exceed \$265k annually.
Contingencies and Special Projects	Includes funding for legal billings (Department of Justice & CDFA); Administrative and Fiscal Assistance (Intervention) Program; Employee Assistance program cost for DAA's; policy development (noise management, policy manual production, etc.); transition costs associated with fair governance reform; and funding for economic uncertainties and liabilities.
Fair Relations and Communication	Provides funding for F&E publications, (Fair Director's Handbook, Board of Director's Overview) and outreach efforts to benefit the network of California fairs. <ul style="list-style-type: none"> Provides funding to pay for travel expenses for members of various fair industry related committees (e.g., State Rules Committee, Sheep Advisory Committee, Statewide Quality Assurance, and the National Association of Agricultural Fair Agencies (NAAFA)).

- Web site enhancement to benefit the network of California fairs, gather data for use by fair organizations.
- Develop ongoing relationships with fairs and local partners.
- Provide outreach to national and international organizations to benefit California fairs.

Flex Capital	An incentive program by which fairs are eligible to receive funding based on their annual performance rating. Funding is available for all fairs with an acceptable performance rating as established by F&E. Funds may be spent on a variety of items including: <ul style="list-style-type: none"> • Training for staff and board members • Information technology upgrades • Real estate analysis, development, and planning • Equipment purchases • Address audit concerns • Modernization of operations • Capital improvements • Major Maintenance Plan • Health and safety projects
Rural Healthcare Equity	F&E pays for additional health benefit costs incurred by DAA's for State employees living in rural areas with no available HMO's.
Unemployment Insurance	Budget Act appropriation to offset fairs' unemployment costs (B&P Code section 19620.1(b)).
Health & Safety	\$1,394,000
Accessibility Upgrades Fund	The program's purpose is to fund fair facility projects intended to improve fairground accessibility and accommodations for individuals with physical disabilities. Replaces ADA program from prior years.
Health Department Program	Provides funding for inspection of fair facilities by the California Department of Health Services to ensure they meet recognized standards for health and safety including storm water runoff, backflow devices, and safe drinking water.
Livestock Quality Assurance	Provides funding to develop laboratory protocols and procedures for testing show animals' blood and urine for drugs and/or chemical residue. Provide training to fair livestock staff, FFA and 4H leaders, and show animal exhibitors.
Urgent Needs Fund	Provides funding for urgent, unexpected expenses related to damage caused by natural disaster, financial hardship caused by facility failures, and other unexpected one-time circumstances that create an urgent need. The Urgent Needs Fund replaces the prior year Emergency Fund program.
Infrastructure	\$700,000
Asset Management	Provided to assist fairs with analysis of property utilization and real estate options. The overall goal of the program is to assist fairs in maximizing the use of fair property to generate revenues and provide services for their communities. Replaces prior year real estate services program.

Revenue Generating Program	Provides funding on a match basis to generate new revenue sources for fair organizations.
Training & Education	
\$731,000	
Agricultural Education	Provides funds to promote agriculture, nutrition, and the fair experience through local community educational programs at fairs.
Professional Development & Compliance	<p>Provides training funds for the development and delivery of seminars and workshops on emerging fair issues. The Division also provides funds for mandatory compliance training such as Open Meeting Laws and Sexual Harassment Prevention. The following is a listing of all training opportunities provided to the fair industry annually in which the Division provides training funds:</p> <ul style="list-style-type: none"> • Exhibit Supers' School: Exhibit program ideas, techniques, and design • Satellite Wagering Facility Symposium: Update on industry trends and issues and planning for the year ahead • Nuts & Bolts: Hands-on accounting, contracts, personnel, insurance, and human resources training • California Fairs Alliance Fall Conference: Industry trends and issues and mandatory compliance training • Director's Seminar: Industry trends and issues and mandatory compliance training • Annual Western Fairs Association Convention and Trade Show: Industry trends and issues and mandatory compliance training • Maintenance Mania: Technical updates and proficiency training (CPR, Cal OSHA, forklift, networking, etc.) • Livestock Training (alternates years with Exhibit Supers' School): Industry trends and issues • Fair Provided Training • Executive Development Program (includes fair management training program)
Racing & Satellite Wagering Support	
\$3,900,000	
Race Track Preparation	Provides funds to supplement the purchase and installation of track preparation materials. Program ensures consistency in track preparation, reducing the risk of injury to horse and jockey.
Supplemental Purses	Provides appropriation to supplement purses at Northern California fairs and Los Angeles County area (B&P Code sections 19605.9 and 19606.3).
Wagering Facility Improvements	Supports improvements to live horse racing and satellite wagering programming and facilities based upon the priorities identified in industry-wide facility surveys (backstretch, paddock, grandstand, etc.). Funding will focus on ensuring the nine racing fairs meet the California Horse Racing Board backstretch housing regulations.